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MANGEL STORES CORPORATION

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1942

AND

CONSOLIDATED STATEMENT OF INCOME AND PROFIT AND LOSS

FOR THE YEAR ENDED DECEMBER 31, 1942

February 19, 1943

To the Stockholders of

MANGEL STORES CORPORATION

The Profit and Loss Account for the year ended December 31, 1942, and the Consolidated Balance Sheet are presented herewith.

The Company had 97 stores in operation at the end of 1942 as compared with 98 stores at the end of 1941.

Increase in volume for the chain was 36%. Increase store for store was 35.9%. Our store improvement program continued with the installation of a number of new fronts, interiors and cooling systems. A number of units were enlarged by the installation of elevators and the utilization of upper floors in the buildings now occupied. Our program for 1943 does not call for further expansion, because the present Government regulations permit only upkeep expenditures.

Four regular dividends of $1.25 each were paid during the year. Under favorable conditions in 1943 the Company will continue payments of regular dividends.

Working capital increased from $1,128,834 in 1941 to $1,316,707 in 1942. The cash balance in 1941 was $782,699, and in 1942 $688,731. However, bills payable in 1941 were $760,576 and in 1942 dropped to $281,608. The inventory increased from $1,305,411 in 1941 to $1,599,282 in 1942.

In spite of the very large increase in taxes for City, County, State and Federal,—the improvement in net profit was the result of a substantial increase in volume, lower operating expense and lower markdowns.

The volume in January 1943 increased 47.4%.

No one can at this moment predict the domestic possibilities of the future. Plans have been made to keep a tight hold on the situation, and meticulous care will be exercised to comply with all the requirements of the Government. We nevertheless expect favorable results.

Respectfully submitted,

SOL MANGEL,
President.

MANGEL STORES CORPORATION

AND SUBSIDIARIES — EXHIBIT A

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1942

ASSETS

CURRENT ASSETS:			
Cash in banks and on hand			$ 688,731.49
Accounts receivable — less reserve (including employees' accounts)			467,714.14
Merchandise inventory — at the lower of cost or market, based upon the retail method of inventory valuation			1,599,282.61
TOTAL CURRENT ASSETS			2,755,728.24
OTHER ASSETS:			
Loans to officers and employees — less reserve		$ 11,280.49	
Cash balances, certificates of participation, etc. — suspended banks — less reserve		1.00	
United States Bonds — Series G and 2½% 1962-67 at cost		15,500.00	
Sundry deposits		2,269.90	
Post War refund of excess profits tax		75,400.96	104,452.35
FIXED ASSETS:			
Real estate — at values as appraised for the management in June, 1932, with subsequent additions at cost, subject to mortgages shown contra	$ 185,370.00		
Less: Reserve for depreciation	27,544.05	157,825.95	
Furniture and fixtures, leasehold improvements and truck — at values appraised by the management in June, 1932, with subsequent additions at cost	1,481,958.33		
Less: Reserve for depreciation on additions subsequent to June, 1932	633,284.50	848.673.83	1,006,499.78
DEFERRED CHARGES:			
Unexpired insurance		23,648.87	
Prepaid taxes, expenses, etc.		41,417.74	
Stationery and supplies		11,100.00	76,166.61
GOODWILL			1.00
			$3,942,847.98

LIABILITIES

CURRENT LIABILITIES:			
Accounts payable — merchandise, less discounts			$ 281,608.93
Accounts payable — expenses, taxes, etc.			383,110.32
Customers' credits			65,584.65
Mortgage installments payable within one year			3,717.20
Reserve for Federal income and excess profits taxes		$1,005,000.00	
Less: Federal Tax anticipation notes		300,000.00	705,000.00
TOTAL CURRENT LIABILITIES			$1,439,021.10
MORTGAGES PAYABLE IN INSTALLMENTS — LESS CURRENT INSTALLMENTS SHOWN ABOVE:			
Mortgage payable through October 8, 1945		24,000.00	
Mortgage payable through October 28, 1957		34,471.80	58,471.80
CAPITAL STOCK AND SURPLUS:			
Convertible Preferred Stock — $5.00 Cumulative, no par value — stated value $25.00 per share — entitled to $100.00 per share and accrued dividends in the event of liquidation — Notes A, C and D:			
Authorized and issued 17,500 shares	$437,500.00		
Less: In treasury 1,740 shares	43,500.00		
Outstanding 15,760 shares		394,000.00	
Common Stock — Par Value $1.00 per share — Notes A and B:			
Authorized 300,000 shares			
Issued 177,500 shares	$177,500.00		
Less: In treasury 495 shares	495.00		
Outstanding 177,005 shares		177,005.00	
		571,005.00	
Surplus — Exhibit B — Note C:			
Capital surplus	681,150.50		
Earned surplus — since January 1, 1936	1,193,199.58	1,874,350.08	2,445,355.08
			$3,942,847.98

The Notes to Accounts, appended hereto, are an integral part of this statement and should be read in conjunction herewith.

Note A — The outstanding capital stock shown on the balance sheet gives effect to the shares to be issued for 50 shares of the previously outstanding 6½% Preferred Stock, par value $100.00 per share, (entitled upon redemption or voluntary liquidation to $110.00 per share plus accrued dividends, and entitled upon involuntary liquidation to $100.00 per share plus accrued dividends) which had not been surrendered for cancellation and exchange as at December 31, 1942, for 50 shares of the new convertible, no par value, Preferred Stock and 150 shares of the new $1.00 par value Common Stock, under the Plan of Recapitalization dated October 14, 1936. Cumulative dividends on said 50 shares of previously outstanding 6½% Preferred Stock amounted to $34.00 per share, or an aggregate amount of $1,700.00, as of the date when the Plan of Recapitalization was consummated. The company may be contingently liable for such cumulative dividends pending the exchange of the 50 shares of old 6½% Preferred Stock.

Note B — 105,000 shares of Common Stock, par value $1.00 per share, are reserved in connection with the conversion privilege granted to holders of the convertible Preferred Stock.

Note C — The company has been advised by its counsel that, in his opinion, there are no restrictions upon the surplus of the company by reason of the difference of $1,394,760.00 between the liquidation value of its convertible Preferred Stock and the stated value thereof. The Board of Directors, by a resolution dated November 14, 1942, expressed their intention at that time not to impair the capital surplus of the company and its subsidiaries as at December 31, 1941 by the payment of dividends (at December 31, 1941, the consolidated capital surplus amounted to $700,425.50 and was reduced during the year by $19,275.00, representing the excess of the cost over the stated value of convertible Preferred Stock purchased for the treasury). It is contemplated that the Board of Directors, whenever, in its opinion, the earnings and the then financial condition shall warrant the same, will declare dividends from earnings or earned surplus account without regard to the fact that the excess of aggregate liquidation value of convertible Preferred Stock over its aggregate stated value may be greater than the sum of the par value of the Common Stock and surplus.

Note D — As at December 31, 1942, cumulative dividends on the outstanding convertible Preferred Stock, amounting to $13.50 per share or an aggregate of $212,760.00 had not been declared or paid.

General — The surplus of subsidiary companies included as a part of consolidated surplus may be subject to Federal taxes if and when received by the parent company in the form of dividends.
The accompanying statements are subject to final determination of the liability for Federal income and excess profits taxes.

MANGEL STORES CORPORATION

AND SUBSIDIARIES

CONSOLIDATED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1942

CAPITAL SURPLUS — Note C:		
Balance at January 1, 1942	$700,425.50	
Less: Excess of cost over stated value of treasury stock acquired during the year	19,275.00	
CAPITAL SURPLUS AT DECEMBER 31, 1942		$681,150.50
EARNED SURPLUS (since January 1, 1936) — Note C:		
Balance at January 1, 1942	726,363.34	
Add: Consolidated net income for the year ended December 31, 1942 — Exhibit C	546,829.99	
	1,273,193.33	
Less: Dividends paid on preferred stock at the rate of $5.00 per share	79,993.75	
EARNED SURPLUS (since January 1, 1936) at December 31, 1942		1,193,199.58
		$1,874,350.08

The Notes to Accounts, appended hereto, are an integral part of this statement and should be read in conjunction herewith.

EXHIBIT C

CONSOLIDATED STATEMENT OF INCOME AND PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 1942

Net sales				$15,566,237.08
Cost of sales, general, administrative and selling expense				13,929,229.81
Net operating profit, before provision for depreciation				1,637,007.27
Provision for depreciation				146,185.80
Net profit, before other income and other charges				1,490,821.47
Other income				3,601.64
				1,494,423.11
Other charges				36,257.96
Consolidated net profit, before provision for Federal income and excess profits taxes				1,458,165.15
Provision for Federal Income and Excess Profits Taxes:				
Normal income tax and surtax			$124,299.53	
Corporation excess profits tax (after deducting debt retirement allowance of $12,047.45)		$862,436.59		
Deduct: Post-war credit	$87,448.41			
Less: Debt retirement allowance	12,047.45	75,400.96	787,035.63	911,335.16
Consolidated net profit transferred to surplus — Exhibit B				$546,829.99

The Notes to Accounts, appended hereto, are an integral part of this statement and should be read in conjunction herewith.

TO THE BOARD OF DIRECTORS,
MANGEL STORES CORPORATION,
NEW YORK, N. Y.

We have examined the consolidated balance sheet of the Mangel Stores Corporation and its subsidiaries as at December 31, 1942, and the consolidated statements of surplus, and income and profit and loss for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of surplus, and income and profit and loss, together with the Notes to Accounts, present fairly the consolidated position of the Mangel Stores Corporation and its subsidiaries at December 31, 1942, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

NEW YORK, N. Y.
February 15, 1943.

S. D. LIEDESDORF & CO.